



APPROVED MINUTES
APPROVED 06-20-11

**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

MONDAY, APRIL 18, 2011

**CITY HALL
KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BOULEVARD
SCOTTSDALE, AZ 85251**

REGULAR MEETING

PRESENT: Vice Mayor Robert Littlefield, Chair
Councilwoman Suzanne Klapp
Councilwoman Linda Milhaven

STAFF: Kyla Anderson, City Auditor's Office
Joyce Gilbride, City Auditor's Office
Lisa Gurtler, City Auditor's Office
Sharron Walker, City Auditor's Office
Jim Flanagan, Administrative Services
Bill Yazel, Administrative Services
Brent Stockwell, City Manager's Office
David Smith, City Treasurer
Dennis Enriquez, Finance & Accounting
Anna Henthorn, Finance & Accounting
Anthony Mangini, Finance & Accounting
Jeff Nichols, Finance & Accounting

GUESTS: None

CALL TO ORDER

Chair Littlefield called the meeting to order at 4:00 p.m.

1. Approval of Minutes, Regular Meeting, March 21, 2011

COUNCILWOMAN KLAPP MOVED TO APPROVE THE MINUTES OF THE MARCH 21, 2011 REGULAR MEETING. CHAIR LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF TWO (2) TO ZERO (0). COUNCILWOMAN MILHAVEN ABSTAINED.

2. Update regarding External Audit Contract

Accounting Director Mr. Jeff Nichols reported that staff issued an RFP and received four qualified responses. These were reviewed by the City Auditor, Accounting Coordinator Anna Henthorn, and himself. On May 3, they will be recommending that City Council continue with the current firm of external auditors.

In response to a question from Chair Littlefield, City Auditor Ms. Sharron Walker said the firm needs to rotate the partner heading the audit at a minimum. The firm has indicated they are agreeable to doing that.

3. Discussion and possible direction to staff regarding Audit Report No. 1109, Printing and Graphics Services

Ms. Lisa Gurtler reviewed the audit report. During the last three fiscal years, the City's print and graphics expenses have steadily declined due to a reduction in demand and the trend towards electronic forms of communication. Currently over half of the City's print and graphics services is being performed by external vendors, which results in underutilization of the Graphics & Printing Solutions (GPS) department's non-cancellable equipment leases. As a result the City should maximize the use of GPS until these leases expire in 2013. As that date nears, a cost benefit analysis should be performed to determine whether to continue the in-house service.

Although GPS provides cost reimbursable services similar to an internal service fund, departments are not required to use it. Of the work sent externally by GPS, auditors found that 48 percent could have been completed internally at a lower cost, with minimal modifications.

Ms. Gurtler shared a couple examples to illustrate this. The Human Services booklet was done externally because management wanted a borderless page. If it had been printed internally with a standard quarter-inch border, the City would have saved approximately 83 percent, or \$1,900. The Fire Department's Five-Year End Review was printed externally. She showed a booklet printed internally and compared it with the one printed externally. Although the difference seems minimal, the external printer charged the City 71 percent more, again a difference of \$1,900.

Additionally, the auditors found that rates charged by GPS do not fully recover the department's costs. Some rates have not been updated for more than ten years.

City-wide, copier usage is substantially below vendor recommended volumes. Since the 2010 implementation of the five-year copier lease, 125 of the 148 copiers have used less than 50 percent of their capacity.

The auditors also noted that with the exception of the Water Fund, postage was under-budgeted and paid through the Mail Services Department, rather than being charged to each user department. Ms. Gurtler noted that Mr. Brent Stockwell and the Director of Purchasing, Bill Yazel, were present to answer any questions.

Councilwoman Klapp said that Council is looking at having electronic packets rather than hard copies, given the cost of printing.

Ms. Walker said that because of the increasing trend towards electronic publishing, as these equipment leases expire, the City should take a fresh look at whether the printing equipment is needed since many publications can be made available on the City's website.

4. Discussion and possible direction to staff regarding Audit Report No. 1110, Remittance Processing

Ms. Joyce Gilbride reviewed the audit report. The City has been processing remittances in-house for about 12 years. Prior to that the City had a contract with its bank to handle this function. The auditors concluded that there are sufficient controls to ensure that customer payments are properly applied to the appropriate accounts and deposited in the City's bank account.

However the volume of payments mailed in has steadily decreased for the last several years as customers switch to electronic payment methods. As a result, several areas for improvement have been noted.

Scottsdale has more staff and lower productivity than a local municipality used as a benchmark. To fill their time, program staff takes on other tasks such as keying in sales tax returns and taking customer service calls. If staff focused on the core functions and matched the other municipality's productivity, costs could be reduced. Efficiencies could be gained by implementing online sales tax reporting, discontinuing repeated verification of scanned images, and no longer storing utility payment coupons.

In the 12 years that the City has been processing remittances, only one documented cost analysis was performed, in 2004. Given the significant changes in payment trends and technology, a current analysis of service delivery alternatives is recommended.

The auditors found that more individuals have access to remittance processing facilities than appeared necessary. However, they did not note any unusual access for the month tested. Given the nature of the work performed, building access should be restricted to only those with a direct need for access based on their job responsibilities.

Finally, Remittance Processing is currently located in the north. It used to serve as a second customer service office as a convenience to Scottsdale citizens. The building has been closed to the public since October 2009, yet staff has remained at this

separate location. Locating the program with current customer service functions at the south office would provide several benefits and potentially reduce costs and risks.

Management has concurred with the findings and was available to answer questions.

Councilwoman Klapp asked if there is room at the south office for remittance processing. Customer Service Director Dennis Enriquez said at present there is not. Staff is speaking with the office coordination planner to investigate that option.

Speaking as a retailer, Councilwoman Klapp said she was glad to hear they are investigating electronic processing of sales tax. This would be an advantage both for the City and retailers. Ms. Gilbride said this is the most labor intensive area for Remittance Processing.

5. Discussion and possible direction to staff regarding Audit Report No. 1115, E-Verify Compliance

Ms. Kyla Anderson presented the audit report. The auditors reviewed 17 contractors, 28 subcontractors, and 44 of their individual employees. All the contractors and all but one subcontractor provided the necessary E-Verify documentation. Upon recommendation from the City Attorney's Office the contract administrator requested that the non-responding subcontractor be terminated from the City contract.

Ms. Anderson explained that auditors chose the sample from payment records because the Purchasing Department does not maintain a summary record of City service contracts. As a result, a substantial amount of time was spent by the auditors and Purchasing staff to develop a reliable population to allow random sample selection. That also contributed to 13 of the 30 selected vendors not being suitable for inclusion in the sample.

To greatly improve the efficiency of conducting this State-required compliance verification, all City service contracts should be tracked. Ms. Walker added that this is a State-mandated, yet unfunded review.

6. Discussion and possible direction to staff regarding 2011 First Quarter Taxpayer Problem Resolution Officer (TPRO) Report

Ms. Walker noted that the results are similar to previous reports with primarily positive responses to the surveys regarding service and billing. The tax audit survey looks a little less favorable, but in the corresponding quarter last year only one response was received.

She told the Committee that she reviewed the one taxpayer appeal and did not find any improper, abusive, or inefficient service, nor was any undue hardship caused by the manner in which the Tax Collector acted. She has responded to the individual who filed the appeal.

In response to an inquiry by Councilwoman Klapp, Ms. Walker said customer service sends out 60 surveys every month, so every quarter the total survey size is 180.

Councilwoman Klapp asked whether the sample size is big enough. Mr. Enriquez said he did not have that information.

7. Discussion and possible direction to staff regarding Status of FY 2010/11 Audit Plan

Ms. Walker reported the department is currently on schedule. She noted that the Medical Benefit Plans Claims Processing audit is being conducted by a contract auditor. There was some confusion with the Aetna data, so this report may be a week or so late.

She asked the Committee members whether they wanted to hold the meeting later in May or wait until June. In reply to a question from Chair Littlefield, Ms. Walker said that the City Charter does not mandate monthly meetings. After discussion, the consensus of the Committee was to wait until the next meeting on June 20.

8. Discussion and Possible Direction to Staff regarding FY 2011/12 Audit Plan

Ms. Walker stated that Finance & Accounting brought to their attention that the SkySong ground lease has an audit clause. She has accordingly added this to the plan. The City Auditor's Office triennial peer review has also been added. She suggested that the audit of Development Review Fees could be moved into the following year's plan, especially given potential new legislation. Ms. Walker noted that the Audit Committee is supposed to review the list and make recommendations to City Council.

Councilwoman Klapp pointed out that depending on Council action the Palomino Library audit may be moot. Ms. Walker said the contingency audit list is used in the event that something changes. If the library remains open, she recommends the audit based on the amount of questions about the agreement during budget discussions.

The members of the Audit Committee unanimously agreed to recommend that City Council adopt the FY 2011/12 Audit Plan.

9. Audit Committee Organizational Matters

VICE-MAYOR LITTLEFIELD MOVED TO NAME COUNCILWOMAN KLAPP AS NEW CHAIR OF THE AUDIT COMMITTEE, EFFECTIVE AS OF THE NEXT MEETING OF THE COMMITTEE. COUNCILWOMAN MILHAVEN SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

The Committee Members agreed to continue meeting on the third Monday of each month.

10. Discussion of Agenda Items for Next Audit Committee Meeting on June 20, 2011

Ms. Walker noted that the next meeting will include audit reports for Medical Benefit Plans Claims Processing, Cash Handling, Selected Housing Programs, and the annual Audit Follow-up report.

The Meter Reading audit will probably not be completed in time for the June meeting.

Public Comment

No members of the public wished to address the Committee.

ADJOURNMENT

The meeting adjourned at approximately 4:27 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz.